PP

Chartered Accountant
SINGAPORE

Singapore CA Qualification Examination

23 December 2020

Financial Reporting

INSTRUCTIONS TO CANDIDATES:

1. The time allowed for this examination paper is **3 hours 15 minutes**.
2. This examination paper has **THREE (3)** questions and comprises **TWENTY (20)** pages (including this instruction sheet and Appendices A, B and C). Each question may have **MULTIPLE** parts and **ALL** questions are examinable.
3. This is an open book examination. During the examination, you are allowed to use your laptop and any calculators that comply with the SAC's regulations. Please note that watches, mobile phones, tablets, and all other electronic devices **MUST NOT** be used during the examination.
4. During the examination, videos of you and your computer screen will be recorded for the purpose of ensuring examination integrity and you have consented to these recordings.
5. This examination paper and all video recordings of this examination are the property of the Singapore Accountancy Commission.

MODULE-SPECIFIC INSTRUCTIONS:

6. Assume that all dollar amounts are in Singapore dollar (S$) unless otherwise stated.

7. Unless specified otherwise, assume that all the reporting entities in all the questions adopt, for all the relevant years, the Singapore Financial Reporting Standards (International) (SFRS(I)) that were issued by the Accounting Standards Council as at 1 January 2020.

ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS
SINGAPORE ACCOUNTANCY COMMISSION

Examplify Question Number	Pre-exam instructions
1	**Instructions on Question Paper and Appendices, if any:** i. Download the document(s) via this link – https://bit.ly/364rRai ii. These file(s) is/are to remain on your desktop throughout the entire exam. iii. Printing of the Question Paper is only allowed at the start of the exam and via a printer located in the same room. iv. If you are unable to download the document(s) via the link provided above or if you have been provided with incorrect file(s) for the exam, please contact SAC at (a) 6325 0515; (b) 6325 0535; or (c) 6325 0529. v. If you need to go for toilet breaks, please mention "toilet break" to the webcam.

Question 1 – (a), (b), (c) and (d)

P Co acquired 40% interest in S Co for $10,000,000 on 1 January 20x3. In spite of the fact that P Co has less than majority voting rights in S Co, it evaluates that it has control over S Co in accordance with the principles of SFRS(I) 10 *Consolidated Financial Statements*. The fact pattern of its relationship with S Co on 1 January 20x3 is shown in Question 1 (d). Both companies operate in the bio-technological industry with P Co being a market leader.

Assuming that P Co has control over S Co, the acquisition date is 1 January 20x3 and the fair values and carrying amounts relating to S Co at this date are shown below:

Shareholders' equity of S Co on 1 January 20x3	***$***
Share capital	8,000,000
Retained earnings	5,000,000
Revaluation reserves	900,000
	13,900,000

Fair and book values of identifiable net assets of S Co at date of acquisition were as follows:

	S Co ($) ---------------------------->	
	Book value	Fair value
Fixed assets	2,000,000	14,000,000
Other net assets	11,900,000	11,900,000
Total net assets	13,900,000	25,900,000

Non-controlling interests	60%
Fair value of non-controlling interests at acquisition date	$15,000,000

The abridged financial statements of P Co and S Co for the current financial year ended 31 December 20x6 are shown below.

Abridged Income Statement and Statement of Changes in Equity

For the year ended 31 December 20x6

	P Co	**S Co**
	$	***$***
Profit before tax	25,000,000	15,700,000
Tax	(5,000,000)	(3,140,000)
Profit after tax	20,000,000	12,560,000
Dividends declared	(600,000)	(560,000)
Profit retained	19,400,000	12,000,000
Retained earnings, 1 January 20x6	52,000,000	9,640,000
Retained earnings, 31 December 20x6	71,400,000	21,640,000

Abridged Statement of Financial Position as at 31 December 20x6

	P Co	**S Co**
	$	***$***
Investment in S Co, at cost	10,000,000	0
Fixed assets and other net assets	161,400,000	30,840,000
Total net assets	171,400,000	30,840,000
Share capital	100,000,000	8,000,000
Retained earnings	71,400,000	21,640,000
Revaluation reserves	0	1,200,000
Equity	171,400,000	30,840,000

Additional information relating to P Co and S Co:

1. Apply a tax rate of 20% on fair value differentials and other adjustments. Dividend income is tax-exempt. P Co's Group recognizes non-controlling interests at full fair value on acquisition date.

2. The fixed assets of S Co at acquisition date included self-constructed robotic equipment. The difference between the fair value and book value of fixed assets of S Co at acquisition date was due to the self-constructed robotic equipment. The fair value of the self-constructed robotic equipment of S Co was significantly higher than its carrying amount (book value) on 1 January 20x3. The remaining useful life of the equipment as at 1 January 20x3 was 50 years.

3. On 1 July 20x5, P Co sold certain intellectual property rights on a completed research and development project to S Co at the transfer price of $30,000,000. Prior to the transfer, P Co had accounted for the research and development project as follows:

   - Expensed off research expenditures of $3,000,000 during the initial stage of the project in 20x3.
   - Capitalized development expenditures, which as at 1 July 20x5, has a carrying amount of $12,000,000.
   - The remaining useful life of the intellectual property as at 1 July 20x5 is 30 years.
   - P Co and the Group apply the cost model to account for intangible assets.

4. On 19 April 20x6, S Co sold inventories to P Co at the transfer price of $100,000 when the carrying amount and original cost was $80,000. Subsequently:
   - Percentage re-sold by P Co to third parties in 20x6 35%
   - Percentage used by P Co and expensed as research 40%
   - Percentage unsold and unused at 31 December 20x6 25%

5. Revaluation reserve of S Co on 1 January 20x6 was $1,400,000.

Examplify Question Number	**Question 1 required:**
2	**(a)** Assuming P Co has control over S Co, apply Singapore Financial Reporting Standard (International) (SFRS(I)) 3 *Business Combinations* and SFRS(I) 10 *Consolidated Financial Statements* and prepare consolidation adjustments relating to P Co's interest in S Co for the period ended 31 December 20x6. **(28 marks)**
3	**(b)** Perform an analytical check (proof of balance) of non-controlling interests as at 31 December 20x6. Listing of the entries is <u>not</u> required. **(4 marks)**
4	**(c)** On 2 January 20x7, P Co buys an additional 30% ownership interests from non-controlling interests for $9,000,000 to achieve 70% ownership interests. Using your calculation of non-controlling interests in part **(b)** above and applying the requirements of SFRS(I) 10 *Consolidated Financial Statements*, prepare the consolidation adjustment to show the effect of the change in ownership interest on 2 January 20x7. **(4 marks)**

Examplify Question Number	Question 1 required:
5	**(d)** The fact pattern as at 1 January 20x3, date of acquisition of P Co's interest in S Co, includes three facts as shown in Appendix A. Ignoring P Co's own assessment, examine each of the three facts in the light of the principles of SFRS(I) 10 *Consolidated Financial Statements* and answer the following questions by completing the table in Appendix A.
	(i) Evaluate if and how that fact indicates whether P Co has control over S Co. **(4 marks)**
	(ii) For each fact, state reasonable assumptions made and/or identify additional information required to assist in your evaluation. **(3 marks)**
	(iii) Conclude whether P Co has control of S Co on the basis of your evaluation above. **(1 mark)**
	(TOTAL: 44 marks)

Question 2 - Case A and Case B

Case A

The following information relates to Z Co for the financial year ended 31 December 20x6. Z Co has to determine its deferred tax liability as at 31 December 20x6 and its tax expense for 20x6 in accordance with the requirements of SFRS(I) 1-12 *Income Taxes*. The balances of assets and liabilities and the tax treatment are shown below. (The tax treatments are hypothetical and are not indicative of the tax requirements of the Singapore Income Tax Act.)

(a) *Fixed assets*

Date of purchase: 1 January 20x5

Original cost: $2,550,000

Estimated useful life: 10 years

For tax purposes, Z Co claims capital allowances over a three-year period from purchase date.

(b) *Research expenditures*

Z Co had incurred $1,000,000 of research expenditures in 20x6 and accounted for the research in accordance with SFRS(I) 1-38 *Intangible Assets*. For tax purposes, the research expenditures are deductible only at the point of completion of the research project, expected to be in 20x8.

(c) *Opening and ending balances of the remaining assets and liabilities for 20x6*

	Opening Balances 1 January 20x6 ***$***	Ending Balances 31 December 20x6 ***$***
Interest receivable	120,000	100,000
Provision for warranties	(80,000)	(30,000)
Interest payable	(15,000)	(12,500)
Contract liability	(80,000)	(100,000)

- *Interest receivable*: Interest income is taxable in the year of receipt.
- *Provision for warranties*: Tax deductions are given on the basis of actual warranty claims.
- *Interest payable*: Interest is deductible on the basis of interest expense.
- *Contract liability*: For certain revenue transactions, Z Co receives cash ahead of provision of goods and services. Revenue from these transactions are taxed at the point of receipt of cash.

Additional information:

- Tax rate for 20x6 is 24%
- Tax rate for 20x5 is 22%
- Deferred tax liability as at 31 December 20x5 is $122,100
- Profit before tax for the year ended 31 December 20x6 is $2,000,000
- Disallowed expenses in 20x6 is $45,000
- Tax-exempt income in 20x6 is $100,000

Examplify Question Number	**Question 2 Case A required:**
6	**(a)** Complete the table provided in Appendix B. **(7 marks)**
7	**(b)** Determine the deferred tax liability as at 31 December 20x6 for Z Co. **(2 marks)**
8	**(c)** Determine the tax expense for the year ended 31 December 20x6 for Z Co. **(5 marks)**

Case B

X Co has two financial instruments that need to be accounted for in accordance with the requirements of SFRS(I) 1-32 *Financial Instruments: Presentation* and SFRS(I) 9 *Financial Instruments*. X Co heard that you are in the process of becoming a Singapore Chartered Accountant and seek your help to account for these two instruments:

(a) Issue and repurchase of convertible bonds

On 1 January 20x5, X Co issued convertible bonds to raise funds for its expansion programme. The details of the issue are as follows:

Total proceeds received in cash	$6,340,000
Principal repayable	$6,000,000
Fair value of the bonds without a conversion option	$5,680,864
Coupon interest rate payable on 31 December	3.50% per year
Effective interest rate	5.00% per year
Number of years	4

In November 20x6, X Co announced to its convertible bondholders its offer to repurchase the bonds on 31 December 20x6, after payment of the interest coupon. The details as at 31 December 20x6 are as follows:

Cash offer to repurchase the bonds	$7,000,000
Fair value of the bonds without the conversion option	$6,229,616

All bondholders accepted the repurchase offer.

On 31 December 20x6, X Co paid $7,000,000 to its bondholders to repurchase and cancel the bonds after paying the interest coupon for 20x6.

Ignore tax effects.

Examplify Question Number	Question 2 Case B (a) required:	
9	**(i)**	Prepare the initial journal entry to record the issue of the convertible bonds on 1 January 20x5. **(3 marks)**
10	**(ii)**	Prepare the journal entry to record the interest expense for the year ended 31 December 20x6. The bond amortization table is not required. **(2 marks)**
11	**(iii)**	Prepare the journal entry to record the repurchase and cancellation of the convertible bonds on 31 December 20x6. **(5 marks)**

(b) Contingent consideration payable

On 2 January 20x6, X Co obtained controlling interests in S Co by buying the shares of S Co from P Co. Besides an immediate cash settlement, X Co agreed to pay P Co an additional $1,000,000 on 31 December 20x8 (end of three years) if S Co meets a profit threshold. The details of the agreement on the contingent consideration payable are as follows:

Contingent consideration payable

Probability of S Co meeting the profit threshold	
Estimated at 2 January 20x6	60%
Revised at 31 December 20x6	80%
Payment if threshold is met	$1,000,000
Effective interest rate	5.00%
Tenure to settlement date	3 years

Examplify Question Number	Question 2 Case B (b) required:
12	**(i)** Calculate the fair value of contingent consideration payable at 2 January 20x6. **(2 marks)**
13	**(ii)** Prepare the journal entries to record the necessary transactions in 20x6, excluding immediate cash settlement. **(5 marks)**

(TOTAL: 31 marks)

Question 3 – (a) to (e)

Dealer Co ("Dealer") sells foreign imported cars in its showroom in Singapore. Each vehicle retails for $100,000. The retail price includes the vehicle price with its registration fee and the agreed price of $40,000 for the Certificate of Entitlement[1] (COE). Customers only pay for the retail price. Any difference between the agreed price of the COE and its actual price is borne or earned by the dealer. The cost of a vehicle, without the COE, to the dealer is $48,000.

Each sale comes with the following features for the buyer from the date of delivery:

- $1,000 worth of "reward points" that can be used to purchase car appliances from Dealer within the first three years from date of delivery.
- Three free car servicing to be carried out in the first year after delivery. The servicing that is not used within this period will lapse.
- Normal assurance-type warranty for the car in the first three years from delivery date, subject to usual terms and conditions.
- Dealer offers extended credit to settle the purchase over a 10-year period. The financing component in the extended credit is significant.

In addition, Dealer offers extended warranty for the fourth and fifth year on a discounted basis if the extended warranty is purchased and paid for at the same time when the vehicle is purchased.

- If purchased immediately, the discounted price of the extended warranty is $3,000. The normal price of an extended warranty is $4,000. The financing component in the extended warranty is not significant.

Ms. Customer ("Customer"), a buyer, enters into a contract to buy a car from Dealer on 2 May 20x6 with the following terms:

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[1] The Certificate of Entitlement grants the holder the right to register, own and use a vehicle in Singapore for a period of ten years. In most cases, a dealer bids for the COE on behalf of the buyer, and the actual COE value is based on the successful bid price.

- Customer agrees to buy a motor vehicle for $100,000.
- Customer agrees to purchase the extended warranty for $3,000.
- Customer pays $5,000 in cash to Dealer on 2 May 20x6 as a non-refundable deposit for the motor vehicle and the extended warranty.
- The remaining $98,000 is payable in half-yearly instalments at interest rate of 2.5% per semi-annual period over a tenure of 10 years. Payment is made at the end of each semi-annual period.
- Delivery of the vehicle took place on 1 July 20x6, at which point, the vehicle is registered in Customer's name.

On 1 July 20x6, the following information relates to the actual COE and fair value of stand-alone components:

- Actual COE price for the vehicle sold was $38,000. Dealer settled the COE in cash.
- Fair value of the stand-alone components in the package is as follows:

Component	**Fair value**
Motor vehicle (without the COE)	$60,000
Reward "points"	$1,000
Three car servicing in first year	$900 in total
Extended warranty	$4,000

On 1 July 20x6, Dealer estimates that the warranty claims for the fourth year was $1,500 and fifth year was $2,000. The estimated warranty claims for the first three years are insignificant.

On 31 December 20x6, the following information relates to Customer's use of the benefits in the package.

- Customer had serviced the car on 1 September 20x6.

- Customer had utilized 60% of the points on 19 November 20x6 to purchase car appliances from Dealer.

On 31 December 20x6, Dealer receives the first instalment payment from Customer. Dealer's financial year ends on 31 December.

Ignore tax effects.

Examplify Question Number	**Question 3 required:**
14	**(a)** Identify the separate performance obligations in the contract between Dealer and Customer, in accordance with SFRS(I) 15 *Revenue from Contracts with Customers.* You may use the table in Appendix C to answer the question. Evaluation of the principal-agent relationship is not necessary and you may assume that Dealer is acting as a principal in all its dealings with Customer. **(2 marks)**
15	**(b)** For each separate performance obligation identified in part **(a)**, indicate the timing of recognition of the revenue. Include specific dates, periods or other relevant information where applicable. You may use the table in Appendix C to answer the question. **(4 marks)**
16	**(c)** Allocate the amount of $103,000 received from Customer to the separate performance obligations by Dealer identified in part **(a)** in accordance with SFRS(I) 15 *Revenue from Contracts with Customers.* **(6 marks)**

Examplify Question Number	Question 3 required:
17	**(d)** Calculate the amount of each instalment payment to be paid by Customer under the extended credit plan offered by Dealer. **(2 marks)**
18	**(e)** From the information in the case, prepare the journal entries for Dealer, to record all transactions for the year ended 31 December 20x6 in accordance with the appropriate accounting standards. Indicate the specific dates for each journal entry and show workings clearly. Ignore tax effects. **(11 marks)** **(Total: 25 marks)**

Appendix A – Question 1 (d) (i), (ii) and (iii)

Fact pattern	**(i)** Evaluate if and how that fact indicates whether P Co has control over S Co	**(ii)** State reasonable assumptions or further information required
60% non-controlling interests comprises 20 shareholders with approximately equal ownership each		
Three Directors from P Co act as Executive Directors of S Co. Of the remaining four Directors of S Co, one is from S Co's bank, two are Independent Directors and one is the external lawyer of P Co		
Under a long-term agreement with S Co, P Co will transfer intellectual property to S Co. In connection with the transfer, P Co has been given the right to direct the R&D activities of S Co. P Co will also provide expertise to enable S Co to be the market leader.		

(iii) Conclude whether P Co has control of S Co on the basis of your evaluation above.

Appendix B – Question 2 Case A (a)

	Carrying amount of asset (liability) as at 31 December 20x6 ***$***	**Tax base** ***$***	**Taxable/(deductible) temporary differences as at 31 December 20x6** ***$***
Fixed assets			
Research expenditures			
Interest receivable			
Provision for warranties			
Interest payable			
Contract liability			
Total net taxable/(deductible) temporary differences			

Appendix C – Question 3 (a) and (b)

You may add or reduce the rows in the table according to your answer.

Question 3 (a) Separate performance obligation	**Question 3(b)** Timing of revenue recognition

END OF PAPER